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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 4357
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC
RUEHRC/USDA FAS WASHDC 4144
RUEHNE/AMEMBASSY NEW DELHI 2633
RUEHBUL/AMEMBASSY KABUL 8037
RUEHLO/AMEMBASSY LONDON 7036
RUEHML/AMEMBASSY MANILA 2916
RUEHKP/AMCONSUL KARACHI 8617
RUEHLH/AMCONSUL LAHORE 4545
RUEHPW/AMCONSUL PESHAWAR 3202

UNCLAS SECTION 01 OF 02 ISLAMABAD 000170

SIPDIS

SENSITIVE

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TAGS: [ENRG](#) [ECON](#) [EINV](#) [PREL](#) [PK](#)

SUBJECT: PAKISTAN ENERGY WOES: A SERIES OF UNFORTUNATE CIRCUMSTANCES

Summary

¶1. (SBU) Summary: Violence, sabotage, and supply disruptions following Bhutto's December 27 assassination combined with routine winter hydroelectric maintenance have pushed Pakistan's normally tight energy supplies past the limit. Since December 27, Pakistan's 3000MW electricity deficit has increased by 50 percent to 4500 MW. As a result, rolling power outages have become commonplace, ranging from three hours daily in Islamabad to over 10 hours in Karachi. Rural areas with electricity are only receiving on average two hours supply daily. Contractual problems with independent power producers and poor management of the government-owned state utilities have also exacerbated the problem. The situation should, however, improve by the end of January when supply problems will be resolved and hydroelectric power is back on-line. End summary.

Bhutto assassination exacerbates power problems

¶2. (SBU) Following Bhutto's December 27 assassination, Pakistan's total electricity deficit increased from 3000 MW to 4500 MW during peak hours (evening) because of system sabotage and insufficient fuel supplies. In one case, the extra high voltage line was blown up in two places in Sindh. A reduction in hydroelectric power generation during the dry winter months contributed to the increased shortfall. The fact that some of the hydro plants are deliberately operating on minimum capacity for annual winter cleaning of the canal system has exacerbated the electricity shortfall. Gas production dropped due to the crisis, and two pipeline explosions also affected distribution. Higher demand due to cold weather has made the natural gas shortages worse.

¶3. (SBU) As a result, the GoP has resorted to unscheduled power cuts of on average eight hours in urban areas and over ten hours in rural areas. Many rural areas -- if they are electrified at all -- are only receiving two hours of electricity daily. Islamabad has fared the best, with an average of four hours of daily outages, while Lahore and Rawalpindi experience approximately eight hours without electricity daily. Karachi is without electricity at least ten hours daily. In a press conference January 7, the caretaker Minister for Petroleum and Natural Resources Ahsanullah Khan blamed the current energy crisis on the post-December 27 violence, conveniently ignoring the GOP's lack of proactive policies on energy exploration and distribution.

¶4. (SBU) Fuel supply disruptions in the aftermath of Bhutto's assassination demonstrated the importance of maintaining the

newly-imposed requirement that independent power producers maintain a 21 day furnace oil stock. However, the GOP only notified the independent power producers (IPPs) December 21, 2007 that they must maintain 21 days of furnace oil stocks to ensure uninterrupted power generation in case of serious supply disruptions. But the combination of the Eid holidays followed by Benazir's assassination made it difficult to comply with this directive, and the companies are reluctant to keep a 21 day fuel stock since the state-owned utility owe them money. They say that they will maintain the 21 day fuel stock as soon as payments are cleared.

15. (SBU) According to Pakistan Electric Power Company (PEPCO) Managing Director, Munawar Baseer, the government-owned company owes the IPPs Rs. 21.5 billion (\$ 347 million), oil companies Rs 3.8 billion (\$ 61 million), gas companies Rs. 1.8 billion (\$ 2.9 million) and others Rs. 25 billion (\$ 403 million). PEPCO has asked the GoP to allocate additional funds of Rs 50 billion (\$ 806 million) and has told the GOP that unless payments are made to the IPPs and oil and gas companies they are likely to call GoP's sovereign guarantees for fuel supplies. (Comment: In the unlikely case that any of the IPPs call in sovereign guarantees, the cases will go to international arbitration, possibly affecting Pakistan's debt ratings. End comment.) Meanwhile PEPCO has assured the IPPs and oil marketing companies that all back payments will be made by January 30, 2008.

Some relief in sight

16. (SBU) The electricity deficit should become more manageable by the end of January. Once fuel supplies are restored, an additional 1000 MW could be made available in a week's time with a buildup of fuel stocks. By mid-January, canal cleaning will be completed, and Pakistan should have additional water to generate 600MW. Recent heavy rains should also help hydro generation. By the end of

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January, the power deficit is expected to be brought down to manageable levels of approximately 2500 MW.

Comment

17. (SBU) Comment: The disruption in fuel supplies and the recent violence following Bhutto's assassination emphasize the tenuous balance between energy supply and demand in Pakistan. This incident also points out the need to quickly get more generation capacity on line and to build up fuel stocks in case of further emergencies. Privatization of government-owned utility WAPA -- as many have suggested for years -- would be another important step in resolving Pakistan's growing energy crisis. End comment.

PATTERSON